

A Design of Organized and Continuous [OC] Islamic Bank Socialization Program to Confirm the Social Significance of Islamic Banks in Indonesia

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Abstract

Firstly, the paper considers qualities of Islamic banks which are distinguished from conventional ones: They are assumed on the solid base of moral and ethical values, although conventional banks cannot entirely neglect morality and ethics and; Performances of Islamic banks are more stable than conventional banks during the severe financial crises, which are due to their fundamental discreet and conservative principles. However, Islamic banks cannot escape from the crises originated from conventional finance. Given the wide gap of scale and close interconnection between Islamic and conventional banks, the former will continue to complement to, not alternate with, the latter.

Secondly, the paper, standing on the first quality clarified above, aims to design a model of socialization of Islamic banks in Indonesia. Socialization of Islamic banks does not merely mean marketing of them in that marketing has a goal of expanding their market, while socialization has a goal of propagating not only economically, but also ethically meaningful Islamic banks to the public. However, ongoing socialization of Islamic banks performed by several institutions is less integrated, less efficient, and less influential than prospected.

Then the article designs a socialization program (OC Program) of Islamic banks that will be conducted, in well-organized way, and continuously by a few popular, major, and modern Islamic social organizations for the purpose of obtaining a lot of customers of Islamic banks who are more aware of moral and ethical significance of Islamic banks, mainly by channels of educational system. OC program should have ramification of educational patterns, for example, by educational institutions, educational level of the public, or by urban/rural areas. If socialization of Islamic banks proceeds successfully, Islamic banks will solidify their standing position on which they act with distinguished social and ethical quality.

Keywords

Socialization, Islamic bank, MUI(The Indonesian Ulama Council), Muhammadiyah

インドネシアにおけるイスラーム銀行の
社会的普及プログラムのための一試論
——イスラーム銀行の社会的重要性の確認のために

要旨

この論文はまず、コンヴェンショナル銀行（従来型銀行）からイスラーム銀行を区別する特質を明らかにする。その特質とは、第一にイスラーム銀行が道徳的倫理的価値に強固に立脚していること、第二に重大な金融危機においてもイスラーム銀行の業績が比較的安定していることに求められる。しかし、イスラーム銀行はコンヴェンショナル金融に端を発する危機の波及を避けることができない。両者の大きな格差とこうした密接な関係からすると、イスラーム銀行はコンヴェンショナル銀行に代替するのではなく、それを補完する存在に留まるであろう。

この論文は第二に、上に示した第一の特質を立脚点として、イスラーム銀行の社会的普及プログラムのデザインを描くことを試みる。社会的普及とは、たんにイスラーム銀行のマーケットの拡大を目的とするものではなく、倫理的な意味をもつイスラーム銀行を広く人々に普及させていくことを意味する。しかし、現在いくつかの団体によって取り組まれている社会的普及は、推進諸機関の連携がとられておらず、効率性も悪く、期待されていたほどには成果を上げていない。

そこで、この論文はその反省に基づき、人々に支持された大規模かつ近代的な志向性をもつイスラームの社会的組織が主導する組織的・持続的なイスラーム銀行の社会的普及プログラム(OC Program)をデザインする。このプログラムはおもに現在の教育システムの経路を活用しながら、イスラーム銀行の道徳的倫理的重要性を意識した顧客を増やすことを目的とするものである。このプログラムは教育機関別、教育水準別、都市型／農村型等々のパターンに体系的に分かれるものとなる。社会的普及が進めば、イスラーム銀行は社会的倫理的な特質をもつ金融機関としての立場を強固にすることができるであろう。

キーワード

社会的普及、イスラーム銀行、MUI (The Indonesian Ulama Council), Muhammadiyah

1. Introduction

a. Review of Previous Theoretical Researches

To begin with, we should clarify the standing position of Islamic economics and Islamic finance based on the principle of Islamic economics. According to Khurshid Ahmed, Islamic economics is not value-neutral. Although it is not an aspect of theology, nor an aspect of law, it has its own set of values whereby it operates. A distinctive feature of Islamic economics is, he mentions, that it does not hide its values in contrast with western economics. Islamic economics deals not only with how human beings behave, but also how they should

behave. Islamic economics directs human beings towards achievement and actualization of justice ('adl) in human relations through a set of regularizations known as halal and haram, that is, what is permitted and what is forbidden (Ahmed, 2000a).

Ahmed, in another article, also asserts that Islamic economics calls for a change from interest-based banking and financial system to an equity-based, stake-taking system where money is used primarily as a means and a measure, where money is a servant not a master, and where money does not beget money but money is used directly as a

facilitator for production of goods and services (Ahmed, 2000b). Hasanuzzaman also observes that Islamic economics has a prerequisite that economic activity is not governed only by human desire and experience but also by injunctions of Shariah (Hasanuzzaman, 2010). While it is a ramification of the social science, Islamic economics is not independent of social requirements and moral values¹.

One of the reasons why Islamic banks are propagated with eagerness in the recent years can be understood by such a fundamental framework of a value system of Islamic economics that delineates the boundaries of the free area of economic action (Abdul-Rauf, 2010). It is not measured simply by their compatibility with conventional banks, but by the contributions made by Islamic banks towards the betterment, justice, equity and fairness of the whole Islamic community. Islamic banks are responsible for promoting establishment and growth of business enterprises soundly so that the activities of these enterprises are able to be permitted by the Islamic law (Haroon, 2000).

One of the most prohibited financial behaviors in Islamic economics is taking interest (riba). It is just because people living in Islamic society should help each other in times of need by supplying money without extra charge. Prohibition against riba means that one cannot invest one's money in bonds and collect interest passively; if one wish to increase one's wealth, this wealth must be directly invested to yield a profit². This thought leads us immediately to the principle of profit/loss sharing (Pryor, 2010). Provision of financial resources to business undertakings for productive purposes is permissible only on the basis of profit/loss sharing. Islam allows a return on capital on the condition that provider of capital

shares in the risks of the business (Ahmed, 2000).

El-Galfy and Khiyar assert that in Islamic finance money has no intrinsic value in itself. A Muslim cannot lend money to, or receive money from anyone with expectation of getting pre-determined benefit. This means that interest is not allowed and that making money from money is forbidden. "Money must be used in a productive way, by which wealth can only be generated through legitimate trade and investment in assets. The principal means of Islamic finance are based on trading. Any gains relating to the trading are shared between the party providing the capital and the party providing the expertise. As a result, the Islamic banks have developed four main Islamic financing techniques, which are: Mudaraba, Musharaka, Ijara and Murabaha" (El-Galfy and Khiyar, 2012).

Then are there any factors of Islamic finance which are similar to conventional finance? According to a Malaysian leading scholar in the field of Islamic finance, Abbas Mirakhor, there are some basic similarities between modern economics and Islamic economics. Mirakhor and Bao argue that Adam Smith's major contribution in his *Theory of Moral Sentiments* is to envision a coherent moral-ethical social system and to show how each member of society would enforce need for an organic coevolution of individual and society. They also argue that there are some theoretical works which, reflexing such Smith's thoughts, seek for optimal risk sharing in a decentralized market economy. For example, a model of Arrow-Debreu-Hahn shows general equilibrium in a decentralized market economy, where risk is allocated to those who can best bear it and where securities represent contingent financial

claims on the real sector genuinely (Mirakhor and Bao, 2013). Risk sharing is one of the most crucially important factors in Islamic finance, in conventional economic theory, is also mentioned that risk should be allocated among market participant rather than allowing it to be concentrated among borrowers.

Following the arguments of Mirakhor and Bao, Sheng and Singh also point out some similarities between modern (conventional) finance and Islamic finance. Their concerns are rather focused on similarities with regard to prohibition or permissibility of *riba* (interest). “(This) rate of discount, which is normally taken to be the market interest rate, is supposed to reflect society’s preference between consumption or utility today and consumption and utility tomorrow. If the two are equally valued, this may be regarded, as the case of Islamic finance, with a zero discount rate or interest rate”. Sheng and Singh find, following the statement cited above, an ethical justification of a zero interest rate in the classic work of Pigou and Ramsey who argued that the time preference should be zero for the achievement of intergenerational fairness. A positive discount rate would greatly favor the current generation at the expense of the future generations

(Sheng and Singh, 2013).

Shen and Singh also cite a doctrine which was referred to by John Maynard Keynes in *the General Theory of Employment, Interest, and Money*, “the rate of interest is not self-adjusting at a level best suited to the social advantage but consistently tends to rise too high, so that a wise Government is concerned to curb it by statute and custom and even by invoking the sanctions of the moral law”. Keynes criticized the classical school for the reason that it repudiated this doctrine as childish and he insisted that it, far from being repudiated, deserved rehabilitation and honour (Sheng and Singh, 2013).

As discussed above, although the fundamental approaches and concepts of modern economics and those of Islamic economics are quite different from each other, they are sometimes likely to be approximate to each other, since modern economics, like Islamic economics, cannot neglect entirely the moral or ethical side of financial activity of human kinds³.

Then we shall focus on an analytical issue concerning competition of conventional banking institution and Islamic banking institution. A recent IMF study by Cevik and Charap which compares the rate of return from the two kind

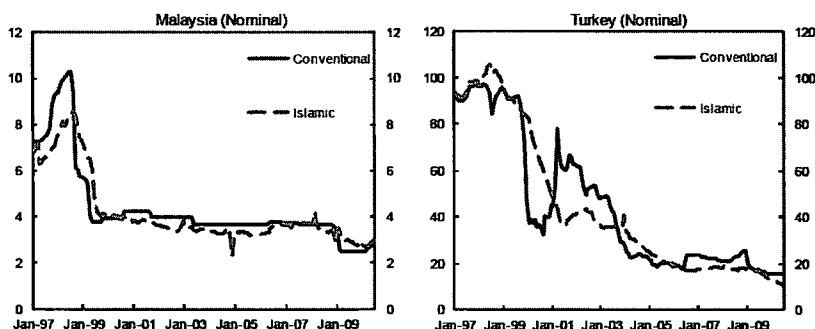


Figure 1: Rate of Return Earned in Banks in Malaysia and in Turkey in the years 1997 to 2010
Source: Cevik and Charap, 2011.

of banking institutions in Malaysia and Turkey from 1997 to 2010 confirms that there is not much difference in the rate of return earned by the two groups as a result of competition between them (See Figure 1).

While the analysis of Cevik and Charap belongs to empirical researches which will be reviewed in the next section, it makes, in a sense, a theoretical demonstration that, whether it is Islamic one or conventional one, the question of optimality is considered only from the perspective of an *individual* banking firm and not from the perspective of a *whole* banking institution (Cevik and Charap, 2011).

Competition of conventional banks and Islamic banks may put the latter even into disadvantageous position. Clement M. Henry observes that, although Islamic economics recommend the long-term and risk sharing financing methods, such as Mudaraba and Musharaka, they cannot entirely evade risk like the long-term lending of conventional banks. Risk sharing methods like Mudaraba or Musharaka presuppose a high degree of trust between business partners, whereas conventional banks can maintain hands-off relationships with the clients owing to risk transfer. It means that, without the trust, Islamic financiers would need much higher monitoring costs. Moral hazard of clients is likely to arise more probably in Islamic banks than in conventional banks, for the enterprise may manipulate its profits and losses at the expense of the bank without the trust. As with funding, indeed, substantial Muslims apparently prefer to put their saving in Islamic banks than in conventional banks. Even if the return of funds (deposits) of Islamic banks may be less than the interest expenses by conventional banks, faithful Muslims convince themselves with depositing their money

into Islamic banks. It enables Islamic banks to keep up with conventional banks in overall profitability. However, as Henry discusses, even the faithful Muslims would probably be not always willing to neglect the opportunity cost of not depositing their money into conventional banks which also accept Muslim's money (Henry, 2004).

From what we argued so far is concluded that Islamic economics, Islamic finance and Islamic banks are based on the solid value system, although morality are also identified in the conventional counterparts in some degree, that competitiveness is fundamentally dependent on individual banks, whether they may be Islamic banks or not, and that Islamic banks do not always have advantages over conventional banks in terms of monitoring cost to borrowers and attractiveness to depositors. Here should we proceed another positive aspects of Islamic banking, financial stability, alongside moral value.

With regard to financial stability, Askari, Iqbal, Krichene, and Mirakhor stress the inherent stability of Islamic financial system. Islamic financial system can be modeled as nonspeculative equity ownership that is intimately linked to the real sector and where demand for new shares is determined by real savings in the economy. Islamic banks own real assets directly and operate like an equity holding system. In Islamic financial system, profitability is fully secured by real economic growth, while in conventional financial system, profitability is not driven by real sector. As Askari and the others point out, Islamic banks are likely to be immune to the unbacked expansion of credit, firstly because they are assumed to match deposit maturities with investment maturities: Short-term deposits may principally finance

short-term trade operations, and long-term deposits are used usually for long-term investments, and secondly because these long-term investments are to finance real activities in the production of goods and services, not to finance non real activities with a fixed or floating interest rate (Askari et al, 2011).

Askari and the others continue to argue that in Islamic financial system sectors of firms and households are likely to evaluate the rate of return, not in comparison to interest rate as in conventional financial system, but in comparison to the average rate of return determined by real factors, consumers' preferences and marginal productivity of capital. Consequently, savings and real investment plans, rather than credit, determine not only long-term investment by Islamic banks but also equity prices in the Islamic stock markets, which decrease systemic risk caused by credit booms, speculative bubbles, and debt trading (Askari et al, 2011).

Their argument leads us to a question: whether is the business cycle in Islamic economy more moderate than that in conventional economy? With regard to this question, Pryor mentions that most of Islamic economists consider that business cycles are likely to be dampened from the several reasons: There is no movement of interest rate to induce procyclical investment; Since savings are tied more closely to investment, there is less chance that these two aggregates get out of alignment; Destabilizing speculation is less probable because banks are less willing to participate in such schemes than individuals; There is less incentive to pyramid financial assets that are subject to liquidity risks (Pryor, 2010). However, it should be noted that, as Islamic modes of financing are strongly linked to real and physical transactions, it is

susceptible to the fluctuations of asset prices which are originated in conventional financing and transmit to Islamic financing.

Here we shall move to an empirical discussion in order to answer the question: Is Islamic bank actually more stable than conventional bank?

b. Review of Previous Empirical Researches

In considering such question as shown above, it is important to remind that direct impact of the global financial crisis in 2008–2009 on the Islamic banking sector was limited due in part to the principles intrinsic to Islamic banking. According to Kaye, Mahlknecht and Hassan, Islamic banks are conservative in banking management, are cautious against structured products, and thus sophisticate their financial instruments. As a matter of fact, Islamic banks are reluctant to CDS (credit default swaps) or CDOs (collateralized debt obligations) because risk sharing should be observed and risk shifting as implemented in these products is prohibited. It enabled most Islamic banks to remain from the crisis. Kaye and the others told that, unlike PLS contracts where both parties are exposed to gain and loss, risk shifting in conventional banking assures only one party to gain, while the losses are incurred by the other parties. We should admittedly note that Islamic banking could not escape thoroughly from influences of the global financial crisis whose origins were not in Islamic banking, for example, as in the Gulf states where the equity valuations dropped sharply, the real estate market plunged into the depths, and the value of sukuk decreased harshly from 30.8 billion dollars in 2007 to 14.9 billion dollars in the next year. However, Islamic finance did not damaged fully by the crisis. High-risk

speculation brought by excessive optimism was clearly limited by prohibition of excessive uncertainty risk (gharar) and leverage risk which are thought to be avoidable in Islamic finance (Kayed et al, 2011).

Likewise, Hasan and Dridi point out the difference of performance of Islamic banks and conventional banks during the financial crisis, using bank-level data covering 2007–2010 for about 120 Islamic and conventional banks in eight countries, of which about one-fourth are Islamic. With regard to Islamic banks, their data covers over eighty percent of Islamic banks globally if Iran is excluded. As a result, Islamic banks could limit the adverse impact to profitability caused by the crisis better than conventional banks, yet, at the same time, weakness in risk management practices of some Islamic banks emerged clearly by the fact that their profitability declined in 2009 compared to conventional banks (Changes in profitability in 2007–2008: Islamic banks -8.3% and conventional banks -34.1%; in 2007–2009: IB -47.9% and CB -13.4%). On the other hand, in terms of growth in credit and assets, Islamic banks kept better performance than conventional banks. Islamic banks' credit and asset growth were at least twice higher than that of conventional banks crisis (Growth in credit in

2007–2009: IB 40.7% and CB 19%; Growth in assets in 2007–2009: IB 31.8% and CB 12.6%) (Hasan and Dridi, 2010). Therefore, as whole, Islamic banks showed much stability stronger resilience during the global financial crisis. Hasan and Dridi assumed that their financial stability, such as lower leverage and higher solvency, was contributing factor for their better performance.

As indicated in Table 1, a statistical report in 2013 on competitiveness of Islamic banks published by Ernst and Young, an internationally reputable Islamic finance research institution which declares that their data sources come from central banks, company financial reports, and interviews with banking executives and industry observers, also reveals that Islamic banks grew much faster than conventional banks after the demise of the global financial crisis in the six countries called QISMUT.

In addition, Amba and Almukharreq (2013) investigated impact of the financial crisis on performance of Islamic and conventional banks with analysis of 92 banks in GCC countries: 27 Islamic banks (IB) and 65 conventional banks (CB) in the years from 2006 to 2009. First, ROE (return on equity) and ROA (return on asset), indicators of bank profitability declined by 41.33% and 67.60% respectively in IB, while

Table 1. The 5 Year CAGR (compound annual growth rate), Asset, and Market Share of Islamic Banks in Six RGM⁴ (2008–2012)

| Six RGM | CAGR of Islamic Banks | Compared with CAGR of Conventional Banks | Islamic Bank Asset (US\$) | Market Share (%) |
|--------------|-----------------------|--|---------------------------|------------------|
| Qatar | 31% | 1.8 Faster | 54b | 24% |
| Indonesia | 42% | 3.1 Faster | 20b | 4.6% |
| Saudi Arabia | 11% | 3.6 Faster | 245b | 53% |
| Malaysia | 20% | 2.1 Faster | 125b | 20% |
| UAE | 14% | 3.0 Faster | 83b | 17% |
| Turkey | 29% | 1.6 Faster | 39b | 5.6% |

Sources: Ernst and Young, 2014 (Edited).

by 62.72% and 106.83% respectively in CB. However, decline in profitability was not significantly different between IB and CB during the crisis. Second, in respect of capital structure, ratio of equity and ratio of tangible equity decreased in IB by 8.49% and 13.19% respectively, and in CB by 9.34% and 25.71% sequentially. It was found that tangible equity ratio had significant difference between IB and CB. Third, ratio of liquid assets to total assets, indicators of liquidity declined by 8.55% in IB and by 13.33% in CB during the crisis from which the authors conclude that there is no significant difference in liquidity between IB and CB during the crisis. Lastly, liabilities are measured based on deposit ratio (ratio of deposits to total assets) and overhead ratio (ratio of overhead costs to total assets). During the crisis, deposits ratio increased by 7.95% in IB and 6.36% in CB and overhead ratio also increased by 19.40% in IB and 31.83% in CB, meaning that ratio of overhead cost was significantly different between IB and CB during the crisis.

As initial conditions, Islamic banks have higher capital adequacy, are less leveraged, that is, have higher capital-to-assets ratio, and have smaller investment portfolios, all of which indicate the degree of discretion and conservativeness of Islamic banks. While these financial performances are required to observe the principles of Islamic banks, such as risk sharing (profit-loss sharing), not risk transfer as in conventional banks, and equity-based financing, not debt-based financing as in conventional banks, these performances are likely to prevent damages of any financial crisis from exacerbating. This is the reason why the degrees of profitability and growth in credit and assets of Islamic banks were higher

or maintained better and why Islamic banks were less affected by deleveraging than in the case of conventional banks when the financial crisis happened (Hasan and Dridi, 2010).

However, as initial conditions, Islamic banks have also a feeble factor: managing liquidity in Islamic banking is difficult because infrastructure and tools for liquidity risk management by Islamic banks is still weak, such as insufficiency of Shariah-compliant interbank money markets led by an interbank rate, less reliance on wholesale banks deposits, absence of lender-of-last-resort, and underdevelopment of Islamic bond markets (*sukuk*). These are the reason why, once the impact of the crisis moved to the real economy, Islamic banks in some countries faced larger losses especially in terms of profitability compared to their conventional counterparts (Hasan and Dridi, 2010).

Here again, we should note that Islamic banks are in competition with conventional banks. Imam and Kpodar attempt to identify the factors that are linked to the development of Islamic banking. Using various econometric estimation techniques, and with the sample data of 117 countries for 1992–2006, they concluded that income per capita, share of Muslims in the population, status as an oil producer (oil prices), economic integration with Middle Eastern countries (share of trade with these countries) and proximity to two Islamic financial centers, Bahrain and Malaysia, are meaningfully and positively linked to the diffusion of Islamic banks indicated by the share of Islamic bank numbers (see Figure 2) and the share of Islamic bank assets (with regard to recent data, see Figure 3) in total banking system. However, most of these factors are formed into Islamic banks' internal relationships, therefore, the analysis cannot

which reviews the previous theoretical and empirical researches, two remarkable qualities of Islamic banks are clarified: 1) Islamic banks have the solid base of moral and ethical values, and are obliged to comply with Sharia, although conventional banks cannot entirely neglect morality and ethics, too; 2) Performances of Islamic banks are more stable than conventional banks even during the severe financial crises, which are due to their fundamental discreet and conservative principles, although they cannot escape from spillover of crises whose origins are found in conventional finance. Furthermore, it is easily recognized from these considerations that Islamic banks have always close relationship with conventional banks, and that they are always confronted with influences of conventional banks whose scales are much larger than those of Islamic banks.

In the rest of the article, setting the first quality that Islamic banks have the solid base of moral and ethical values, as a guideline of argument, I am going to limit my focus on an issue as follows: How can Islamic banks in Indonesia be socialized. How to grow their economic and managerial competitiveness or how to make them coexist with conventional banks are put aside in the article. After distinguishing concept of socialization from marketing in the next preliminary section, I overview ongoing performance of socialization of Indonesian Islamic banking in the third section and point out some problems and remark an important promoting factor for socialization in the Islamic social institutions, MUI and Muhammadiyah in the fourth section. In the subsequent section, I show a sketch of "the Organized, and Continuous [OC]" socialization program conducted mainly by MUI and Muhammadiyah. As a conclusion, it is stated

that as far as Islamic banks in Indonesia have willingness to be based on Sharia compliance, socialization program is well worth consideration.

2. Preliminary Research

a. Definition of socialization.

When we talk about the prospect of Indonesian Islamic banking system in the future, we should consider deeply not only the way of growing them economically, but also the way of socializing them morally and ethically. Generally speaking, socialization is an attempt to popularize something in order to make it be well known, understood, and internalized by society (Bahasa, 1988). Based on this definition, socialization of Islamic banks in the article can be termed as a step of disseminating Islamic banks to the public, providing the public with acknowledgement and social and moral significance of it, and inviting them to use Islamic banks more often.

Indeed, socialization of Islamic banks is currently implemented by some Islamic institutions in Indonesia. However, it is not appreciated to be so effective, and this is why we are going to discuss socialization of Islamic banks in the article. Without much review we can easily find the reason of ineffectiveness of ongoing socialization of Islamic banks: (1) socialization are not extended into rural areas beyond urban areas; (2) insight and knowledge of Islamic banking is generally limited within the academics and the practitioners, whereas the public are not familiar with and understand clearly Islamic financial institutions (Sutanto and Umam, 2013).

b. From marketing to socialization.

Is socialization different from marketing?

Kotler observes that marketing is a social process where suppliers aim at satisfying consumers and consumers (individuals or groups) obtain certain products and services that they need and want (Kotler, 2000). Marketing has five tools: 1) Advertising, 2) Sales promotion, 3) Public relations and publicity, 4) Personal selling, and 5) Direct marketing (use of mail, telephone, fax, email, or internet).

Consumers of banks are customers. They want banking products and services that make them satisfied in return for their investments or deposits. They are based on agreement between a bank and its customer. Customers always evaluate alternative products and services before they decide to select their favorite banks, gathering information on financial products and services they want, from their families, friends, reference groups or promotional programs.

Marketing is a kind of communication. According to Lavidge and Steiner, communication process between suppliers of goods and services and clients or potential clients can be shown in Figure 4. There are three stages in the communication hierarchy: cognitive, affective and behavioral. At the cognitive stage, potential customers become aware of suppliers and their products and increase knowledge of them. Companies give them knowledge and favorable attitudes. At the affective stage, customers are linked to suppliers and their products, prefer to them, give confidence to them, and lastly are convinced of their merits. At the final behavioral stage, customers start action of using goods and services of suppliers. It is at this final stage that customers actually switch their behavior of purchasing goods and services (Lavidge and Steiner, 1961). Customers tend to be involved deeper and deeper with goods and

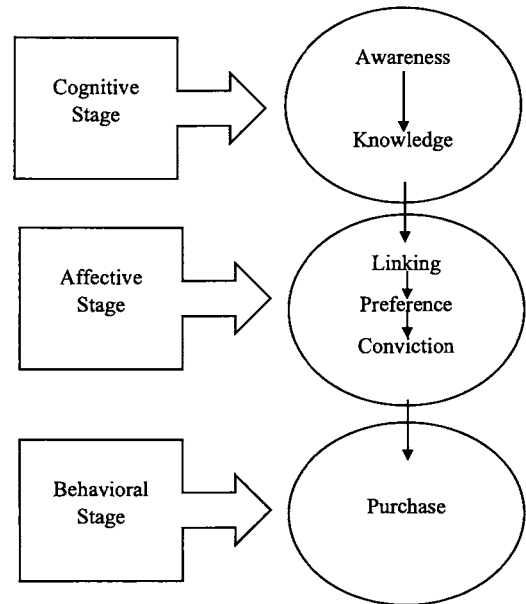


Figure 4. Hierarchy of Effective Marketing (Lavidge and Steiner, 1961)

services, spending much time and effort to find opportunities to purchase them actually.

The model shown above by Kotler and Lavidge and Steiner is true to Islamic banks as well as conventional banks. The cognitive stage is a process of awareness towards the presence of Islamic banks and of incrementing knowledge of them. At the affective stage, customers are inclined to do something through linking, preferences, and conviction to Islamic banks. Lastly at the behavioral stage, clients start action to deal with Islamic banks and purchase their financial products and services (Kotler, 2000).

However, socialization of Islamic banks is different from pure and simple marketing of them in that marketing has no other purpose than increment of economic satisfaction and utility of both consumers and providers of services in the banking markets, meanwhile socialization of Islamic banks is a process

where Islamic banks have a solid purpose to increase the social and ethical presence of them as those who comply with Sharia, to make the public understand the social significance of Islamic banking well, and lastly make the customers use the products and services of Islamic banks on these understandings.

According to Wilson (2009) and Tawari (2015), one of the factors driving growth of Islamic banking is that Muslim requires financial products and services under Sharia law consciously. As these products and services such as bank finance without interest have not been developed and supplied for a long time, many Muslims were forced to exclude themselves from formal financial markets. This is a reason why only 25 percent of adults in year 2011 in the member countries of OIC (Organization of Islamic Countries) have an account in the formal financial institutions (World Bank, 2014). There are other reasons, for example, a lack of money to be deposited or invested, because about 700 million of the poor in the world live predominantly in Muslim-populated countries. Still, religious reason is not negligible: For instance, as many as 34 percent of the Afghan population does not have accounts in formal financial institutions because of religious reason. Religiosity influences not only Muslim individuals but also corporations in OIC countries. Sharia compliant financial products and instruments can play a significant role in enhancing financial inclusion among Muslim populations.

3. Ongoing socialization of Islamic bank in Indonesia

a. Bank Indonesia⁷

It is needless to say that Bank Indonesia, as the central bank of the Republic of Indonesia,

has one primary mission of stabilizing the value of Indonesia rupiah (Indonesia, 2014a). However, Bank Indonesia has another important task to socialize Islamic banks, to deliver messages and information on Islamic banks to the public, and to promote Islamic financial products, in collaboration with another parties including Islamic banks, PKES (Pusat Komunikasi Ekonomi Syariah: Sharia Economy Communication Center), MUI (Majelis Ulama Indonesia: Indonesian Ulama Council), concerned universities, and the other various public figures, parties and institutions in Indonesia. Adding to these programs, the Bank advertises Islamic banking to the public in variety talk shows on TV and on radio, in billboards, and in other media.

Besides, Bank Indonesia organizes various seminars under the joint sponsorship with some industrial and business associations of Indonesia, such as Kadin, for the purpose of raising funds of Islamic banks and promoting asset management of industrial and business customers under Islamic banks. The Bank also encourages the public to convert their deposits from conventional banks to Islamic banks, in collaboration with the mass Islamic social organizations such as Muhammadiyah (explained later) (Choiruzzad and Nugroho, 2013).

One of the main projects of Islamic bank socialization launched by Bank Indonesia was "The Grand Strategy of Islamic Banking Market Development" in year 2008 with the following six programs. Their social significance could be represented by a few slogans, such as "Beyond banking" or "Islamic bank, more than just a bank" (Authority, 2013).

Firstly, the strategy designed a new ambitious middle term vision of Islamic banking development to make the Indonesian people comprehend Islamic banking more

profoundly and: 1) To reach an asset target of 50 trillion Rupiahs in Islamic banks in Phase I in 2008; 2) To position Indonesian Islamic banks as the most attractive financial sectors in ASEAN in Phase II in 2009; and 3) To attain a status of leading Islamic Banking in ASEAN in Phase III in 2010⁸.

Secondly, the strategy built a program of branding a new image of Islamic banks, a new image that Islamic banks made every effort to bring mutual benefits to both customers and themselves. It was to differentiate Islamic banks from conventional banks not only in competitive advantages of various financial products and services but also in transparent and ethical aspects of their management, and, parallel to the differentiation, it prompted Islamic banks to update user-friendly information technology and to qualify appropriating investment by experts of Islamic finance.

Thirdly, the strategy had a new mapping program for more effective and more intensive socialization of Islamic banks, whereby the actors of socialization of Islamic banks would know easily the present location of Islamic banks, the present distribution of the population and the customers, and their accessibility to Islamic banks, and the population and the customers would comprehend the services supplied by Islamic banks as universal ones. The program would enable the actors to decide priority of socialization and concentrate effectively their limited resources and energy into the people who need Islamic bank products and services the most in Indonesia. However, although BI made some preliminary research for the new mapping project in collaboration with some universities and a famous marketing institution in Indonesia, Mark Plus conducted by Hermawan Kerta

Jaya, the universities in Indonesia that could join in the research were very limited, because research budget for mapping had been insufficient (Pddikti, 2015).

Fourthly, the Grand Strategy had a program of developing more various financial products and services which, due to their merit of mutual benefits, were attractive for potential customers both commercially and religiously, of extending nationwide office network of Islamic banks, and of naming Islamic financial products, for example, "deposit-iB" or "financing-iB", so that the public could perceive, accept, and were persuaded to use them. The logo "iB" means Islamic bank, and now it is familiar with Indonesian people.

Fifthly, the strategy had a program of supplying customers with products and services of enhanced quality under Sharia compliance, which would be realized by competent human resources, updated information technology to meet customers' requirement and satisfaction, and advertisement. They were needed to correctly communicate products and services of Islamic banking which complied with Sharia principles to the customers. However, competent human resources needed by Islamic banks were very limited.

Sixthly, the strategy had a wider and more efficient educational program for the public through various direct or indirect (printed and electronic media, and online / website) communication channels to make the public comprehend the advantages of Islamic bank products and services that can be beneficial to them (Authority, 2014b). However, with regard to education program, Bank Indonesia has not well organized socialization.

b. OJK (Otoritas Jasa Keuangan) or FSA (Financial Service Authority)

OJK is a financial agency which was newly established in 2012, under the Act, No. 21 in 2011, to take over functions, duties and authority of regulation and supervision of financial services activities in the sector of capital markets, insurance, pension funds, and other financial institutions from the Capital Market Supervisory Agency and the Financial Services Institute which had been under control of Ministry of Finance (Authority, 2014a). It was a first good step for Indonesian financial regulatory system to be more professional and raise its credibility. In the next step, since December 31, 2013, a part of functions, duties and authority of regulation and supervision of Bank Indonesia has been also switched to OJK. The transition continues long until now whereby micro prudential regulation, supervision, and inspection are under jurisprudence of OJK.

It is in the comprehensive framework described above that OJK, together with Bank Indonesia, regulates and facilitates Islamic banks. With regard to facilitation, OJK has strategies of developing Islamic banks with acknowledgement of a role that Islamic banks will play for the financial stability in Indonesia. However, since the organization is new, the action is still limited. For example, OJK supports the GRES! Program led by PKES and other Islamic business communities (See subsection d. PKES). OJK also promotes research of Sharia economy and Islamic finance and banking and calls for papers annually to the researchers in the Research Forum of Sharia economy and finance where the 12 winners get prize from OJK. This activity will get much outcome, if excellent research papers are

(capital) published in an accredited journal.

OJK makes a working group of marketing and communications of Islamic banking, whose tasks are: To exhibit iB Vaganza⁹ in various cities in Indonesia; To open Training of Trainers (TOT) of Islamic banking program also in various cities; And to advertise, disseminate, and communicate Islamic banking to the public through various published prints and electronic media. Activities like these are needed for Islamic bank socialization. However, they are lacking in a better organized system for effective implementation of socialization activities not simply in all areas in Indonesia, but also in certain targeted people, class, and area based on a map of socialization. Additionally, the result of socialization must be measurable. OJK needs third party or institution specialized in Islamic bank socialization.

OJK has three important plans in the future related to Islamic banks in Indonesia: 1. Strengthening structure and resilience of Islamic banks to support development and transformation of the national economy; 2. Coordination and collaboration between conventional banks and Islamic banks in micro and macro prudential policies for stability of the financial system in Indonesia; and, 3. Education and promotion of Islamic banking and finance with more integrated and massive way. The last third plan is much relevant to the theme of this paper. While OJK is itself an authority institution, it promotes socialization of Islamic banks and thinks that education of Islamic banking and finance in more integrated, continuous and organized way must be pursued.

Reviewing these actions of Bank Indonesia and OJK, we can understand that these organizations are obviously one of the main actors of Islamic bank socialization (Indonesia,

2015). However, they have concentrated their socialization programs mainly into the five big cities in Indonesia, and therefore, do not cover the nationwide regions of Indonesia.

c. MES (Masyarakat Ekonomi Syariah: Association of Islamic Economy)

Now we refer to some Islamic economy associations and social institutions whose mission is to propagate Islamic economy and finance in Indonesia. Although the article overviews their socialization activity of Islamic banks, it refrains from judgment of their subjective mission. The article considers the role of Islamic economy associations and social institutions in Islamic bank socialization in so far as we recognize that Islamic banks cannot substitute, but complement to, conventional banks.

While OJK is an agency of Bank Indonesia, MES is a purely private economic association that encourages the public to adopt the economic system of Islam in Indonesia. MES, since the establishment in 2001 in Jakarta, has expanded the branches in almost all regions in Indonesia and in several foreign countries such as the United Kingdom, Saudi Arabia, Malaysia, and Germany. MES derives financial resources from membership's fee, donations and some charity in Islamic way, except from a foundation of ten million Indonesian Rupiahs succeeded by the founding fathers (MES, 2014).

MES advocates Islamic economy and business ethics in Indonesia, and attempts to accumulate human resources that are endued with morals, knowledge and ability to run the economic activities of Islam, with a vision in the future that it will be able to be accepted as an influential economic reference of Islamic behavior and be followed by the public to such a degree that the primary choice of the public can be

Islamic business, investment and finance.

MES recommends firmly that the Muslims use Islamic banks when they need banking services, as if they eat halal food when they need to eat. However, the actions of MES for Islamic bank socialization are too sporadic. For example, it held only one workshop in 2013, "National Training and Workshop: Legal Aspects and Akad Contract of Islamic Banking" in Bandung; and one workshop in 2012 too, "Workshop Islamic Banking (Basic Level)" in Semarang, while it had a lot of program concerning stock exchange and Islamic insurance.

d. PKES (Sharia Economy Communication Center)

PKES is another major private economic association whose mission is similar with MES's one: The final vision of PKES is to create the community whose members understand, believe and apply themselves to, the Islamic economy as a whole ("kaffah" in Arabic). PKES was established at May 14, 2003, in Jakarta and thereafter, like MES, expanded branches or representatives in several places in Indonesia and abroad. Likewise, PKES has a lot of financial resources, such as donations of the founding fathers and others, memberships fee, government subsidy, and profits from their own business (PKES, 2014).

The missions of PKES are: 1) Increment of people's understanding of the essentials of Islamic economy; 2) Creation of public confidence in economic advantages of complying with the rules of Sharia; and 3) Growth and development of Islamic economy in Indonesia.

PKES has recently launched a new notable movement called GRES! (Gerakan Ekonomi Syariah: National Movement of Islamic Economy)

to construct the over-all Islamic economy, involving many Islamic companies, business persons, financial institutions, regulators, associations, universities, and many other stakeholders. Each unit can hold its own program, but, at the same time they converge into GRES! The movement was started directly by an address of Indonesian President, Susilo Bambang Yudoyono, on November 17, 2013 in National Museum, Jakarta, as an innovative campaign of building Islamic economy (Aryani, 2013). It is obvious from this process that, although PKES is a private economic association, it has close relationship with the government. However, outcome of the program cannot not be clearly estimated because GRES! is merely “moral touch” without any calculated goal. The staffs of PKES are so scarce and absolutely limited that it is difficult to implement Islamic bank socialization in full scale. There is recorded one primary forum concerning Islamic bank socialization in 2013, “On Waiting for State-owned Islamic Banks”, a joint program with Ministry of State Enterprises and Indonesia Central Bank.

e. Islamic social organizations.

Islamic social organizations are different from associations of Islamic economy in that while the latter consists of various economic groups and individuals, the former consists of Islamic religious leaders. MUI (The Indonesian Ulama Council), an Islamic social organization which was established in 1975, is an association of Islamic scholars, leaders, and intellectuals. MUI aims at the realization of a country that is safe, peaceful, equitable and prosperous both spiritually and physically so that God may bless. To achieve the goal, MUI assists and guides the people, issues fatwas, formulates

policy on Islamic mission, and offers a liaison between the Islamic scholars and the government leaders (Indonesia, 2014b).

MUI may be considered as a leader of socialization, dissemination, understanding, confidence, and encouragement of Islamic banks to the potential customers since it has already demonstrated itself as an axis of Islamic popular movement in the field of banking: MUI issued a fatwa in 2004 to manifest that bank interest should be distinctively forbidden as haram, things and behaviors which are forbidden in Islamic law (Indonesia, 2004)¹⁰.

Another Islamic social organization that is expected to contribute much to socialization of Islamic banks is Muhammadiyah. It is a large modernist Islamic social organization as well as MUI, and it aims primarily, but not radically, to practice the religion of Islam in everyday life according to the holy book of Islam, Al-Quran [from the God], and Hadiths [sayings, actions and approvals of the Prophet Muhammad]. Muhammadiyah was established by K. H. Ahmad Dahlan in Yogyakarta in 1912. Education and health have been two of the most prominent social fields of Muhammadiyah since the establishment, and now in Indonesia there are 172 higher educational institutions and 457 hospitals or clinics managed by Muhammadiyah (Muhammadiyah, 2014)¹¹.

Muhammadiyah has also revealed beneficial attitude to solidification of Islamic economic system. Muhammadiyah, like MUI, made a fatwa, Number 8 in year 2006, which censures bank interest as haram (Muhammadiyah, 2006), and at the 45th Muhammadiyah Congress in Malang, it manifested that it would transfer all assets to Islamic banks to use them to expand Islamic financial services through Islamic banks (Anhar, 2013).

Taking into consideration that attitude and performance of Muhammadiyah toward Islamic banks have been clearly positive, that its social status in Indonesia is very high, and that its social activity has been highly estimated by the public, it is expected to be a leading promoter of Islamic bank socialization in the future.

4. Finding/ Discussion and Implication

In an interview conducted by me, Rifki Ismal, senior researcher of Bank Indonesia, states that socialization, propagation and public understandings of Islamic banks in Indonesia has not yet reached at an optimal level (Ismal, 2014)¹². In fact, as I discussed above, ongoing efforts to socialize Islamic banks in Indonesia seem to have many constraints. Ismal points out an important factor which demonstrates insufficient socialization of Islamic banks: coordination among the actors is not smooth and their actions are too general and too fragmented. They merely undertake their fragmental projects which are not interconnected smoothly with each other. Mutual understandings among the actors of socialization are not sufficient. If collaboration of the actors, Bank Indonesia, OJK, non-governmental economic organizations like MES, PKES, and Islamic social organizations like MUI and Muhammadiyah functions well, being supported by the government, socialization of Islamic banks to the public in Indonesia will be expected to be improved much better and continue more stably.

Furthermore, a crucial defect of the ongoing socialization is that there are little data which indicates how many people in each region or district need more knowledge and information of Islamic banks and are likely to be customers

of them. One of the main reasons why socialization of Islamic banks to the public is needed further is that a lot of people in Indonesia do not understand Islamic banks well. In this regard, an idea worths considering that the Indonesian words should be used for Islamic banking contracts and products as substitute for those written in the Arabic so that the people can understand more easily the methods of Islamic banking. It will have an effect of social propagating use of Islamic banks (Purwata, 2013).

As MUI and Muhammadiyah are one of the largest and most influential Islamic social institutions in Indonesia, they will be able to candidates of the leading and orchestrating players to socialize Islamic banks strategically on the national level, as already discussed. Ismal, assuming their potentiality, suggests how to solve current difficulties of socialization of Islamic banks in the following ways: a) Involving Ulama (Islamic scholars) of MUI more profoundly to socialize Islamic bank; b) Arranging intensive curriculum of Islamic banking and financing in some kinds of schools in Indonesia to overcome lack of human resources of Islamic banks; and c) Increasing publications and distributions of textbooks concerning Islamic banks and finance by using expansive network of MUI and Muhammadiyah (Ismal, 2013). Above all, MUI and Muhammadiyah seem to have power to prompt the central and local governments to play more active role in socialization of Islamic banks, making use of their close relationships with Indonesian political authorities.

5. OC socialization program

In this section, with reference to Ismal's

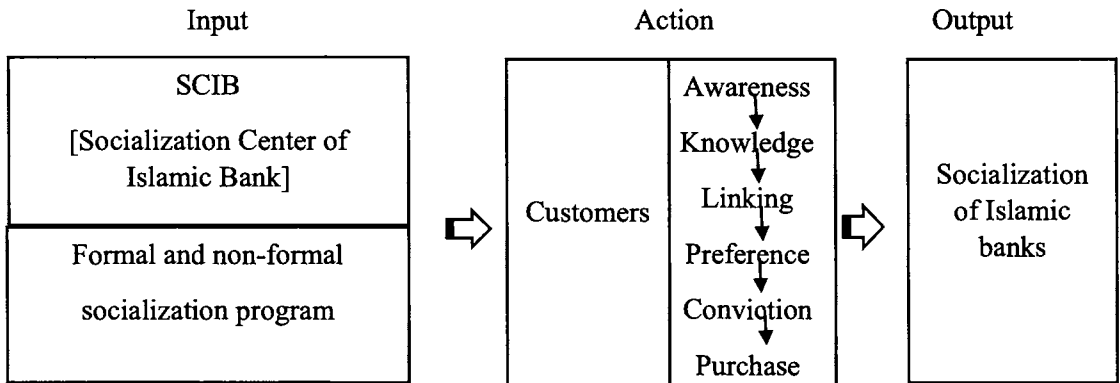


Figure 5. Input, Action, and Output Process of OC Socialization Program

argument, I will design a model of socialization program of Islamic banks in Indonesia, called “the Organized, and Continuous [OC]” socialization program conducted mainly by MUI and Muhammadiyah. These major Islamic social organizations will control and orchestrate socialization of Islamic banks in an organized and continuous way. Figure 5 shows a model for input, action, and output process of OC socialization program.

OC program covers the Input-Action-Output process. Firstly, input is implemented by SCIB (Socialization center of Islamic banks). Although SCIB cannot be delineated clearly in my design, it is supposed to be a non-governmental organizer mainly consisted of members of Islamic social organizations. SCIB focuses its work on controlling and orchestrating of socialization of Islamic banks in Indonesia which consists of 33 provinces. Tasks of SCIB are planning, execution, control, and evaluation of some formal and non-formal programs of Islamic bank socialization. It also undertakes a work of mapping which segments the population by region or by educational background to promote socialization effectively and efficiently.

Secondly, through action process, potential customers experience each stages of socialization:

Initially customers become aware of the presence of Islamic banks, and then increment knowledge of them. They are soon linked to, prefer to, and believe in Islamic banks. At this stage, customers begin to have positive and sympathetic images and attitudes to Islamic banks. Lastly at the stage of behavior, customers actually use Islamic banks.

Thirdly, in output process, OC program will progress socialization of Islamic banks, and will lead to the development of Islamic banks steadily.

One of the formal socialization programs of OC will be through the national religious education curriculum which has been already introduced in Indonesian. With support of MUI and Muhammadiyah, socialization of Islamic banks will be incorporated into the national religious education curriculum. It begins from kindergarten to elementary school, junior high school, senior high school, and university, in accordance with their respective levels of education. Materials and contents are also adjusted to each level. It makes pupils, students, teachers, lecturers, and dispatched tutors from outside be aware of Islamic banking, obtain knowledge of it, be linked to it, prefer to it, and be confident of it until they

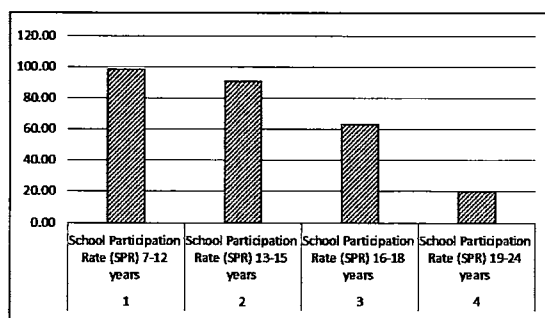


Figure 6. Indonesia Formal Education Participation in 2013
Sources: (Indonesia, 2013)

finally make dealings with Islamic banks¹³.

With regard to the educational program outlined above, Figure 6, a prototype of mapping, shows that school participation rate (SPR) for children aged 7–12, 13–15, and 16–18 are 98 percent, 90 percent, and 63 percent respectively, while SPR for children aged 19–24 years is only about 20 percent. It can be said that, as the levels of primary schools, junior high school, and high school participation rate are high, it will be effective to concentrate more intensive socialization program of Islamic banks at these lower levels. Since most of Islamic bank curriculum of Islamic banking and finance are currently prepared for students at the university level for bringing up professionals and researchers in Islamic banking industry, an idea of educational curriculum at the lower levels of primary education schools, junior high school, and high school seems to be innovative and attractive.

Another formal socialization program of OC is training of Ulama (Islamic scholars) in the field of Islamic banking by MUI and Muhammadiyah. In general, the people of Indonesia, especially the members of Muslim communities are likely to have some key persons play role model. In Pengajian (as explained soon, non-formal Islamic meetings in communities), persons who

undertake role model are Ulama. Therefore, if Ulama in Indonesia are firstly socialized through training program, it may give desirable impact on followers and audience of Ulama in Pengajian. As Ulama have relatively much knowledge of Islamic banks and finance without the special training, they are soon capable of teaching significance of Islamic banks to audience and followers. Ulama are expected to play role model to guide a lot of followers in awareness, acknowledgement, linking, preference, conviction, and purchase in OC socialization program of Islamic banks in daily life. Ulama can give the best recommendations of Islamic banks, deposit opportunities, and financing feasibility to audience and followers. These processes increase popular transaction with Islamic banks.

One informal OC socialization program is Pengajian. Pengajian is non-formal Islamic meetings in communities in Indonesia conducted by Ulama that aims to transfer the knowledge of the religion of Islam from Ulama to the public. Ulama can provide Islamic religious knowledge to his followers directly. However, when knowledge of the religion of Islam is transferred through Islamic religious books, video and others types of media, the method is indirect. Transfer of knowledge of Islamic banks mediated by Pengajian can induce audience and followers to be familiar with transactions with Islamic banks, such as investment, deposit and borrowing. When Islamic scholars address audience and followers, they can teach importance of discipline and rules of transactions, such as repayments¹⁴.

When we discuss OC program in Pengajian, it is necessary to see Figure 7, a prototype of mapping like Figure 6, which suggests the priority of socialization of Islamic banks to the

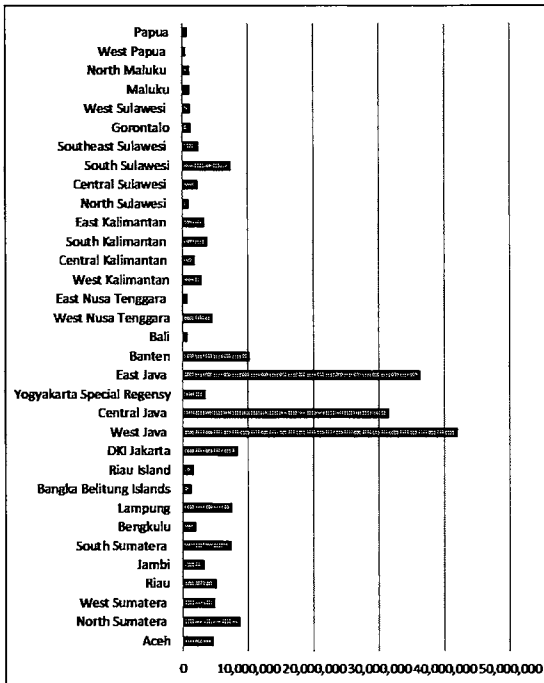


Figure 7. The Number of Muslims in Indonesia by Province in 2010

Source: (Indonesia, 2010b)

Muslim communities by province. From distribution of Muslim population in Indonesia shown in Figure 7, we find that the largest number of Muslims live in East Java, West Java and Central Java. For that matter, it is recommended that Pengajian, an informal OC socialization program of Islamic banks, be concentrated in these three provinces as the main target in the non-formal socialization program, which will be followed by the other provinces populated with many Muslim populations after three major provinces, such as Banten and DKI Jakarta.

Adding to this, according to the census of Indonesia in 2010, the total population is 237,641,326. They are divided into rural areas, 119,321,070 (50.21 percent) and in urban areas, 118,320,256 (49.79 per cent) (Indonesia, 2010a). Given this division, SCIB should make

two approach strategies of Pengajian program. The first approach is socialization of the population who live in rural areas. In rural communities, Pengajian needs to emphasize the basic understanding of Islamic banks so that people can be aware of, and get accustomed with, various basic services of Islamic banks, such as savings, financing for agriculture, farming, and plantations, and other small-scale financing. The second approach is socialization of the population who live in urban areas. Some of them are engaged in middle and large scale of industries and services. In urban communities, Pengajian needs to emphasize understanding of Islamic banks in the mid-level so that people can transact with Islamic banks for savings, financing for industries and investment which are occasionally of middle and large scale.

Another OC informal socialization program is focus group discussion. SCBI needs to conduct focus group discussion with business managers, directors and investors of various industries, including those in the large Muslim conglomerates in Indonesia. According to *Forbes* in 2012, total assets of the four largest Muslim conglomerates, Chairul Tanjung, Achmad Hamami, Garibaldi Tohir, and Aksa Mahmud recorded as many as 73 trillion IDR (Oktarianisa, 2012). If all of these assets were invested or deposited into Islamic banks, total funding of Islamic banks would increase by 33 percent, 291 trillion IDR. It means that socialization of Islamic banks also needs to be approached to big business and large investors. Rifki Ismal said in an interview conducted by me in 2014 that Islamic banks can increase their performance significantly by attracting investors and large conglomerates, including those of non-Muslims (Ismal, 2014). Therefore, OC socialization

program of Islamic banks needs to hold wide range: it covers not only the public, and small and medium business but also large businesses for propagating social and ethical significance of Islamic banks as well as for improving profitability of Islamic banks (Santoso, 2014).

6. Conclusion

Islamic banks in Indonesia have two purposes. Firstly, they attempt to be competitive with conventional banks, although they will not be able to be alternative to them. They are now emerging side by side with conventional banks and being complement to the financial system. In fact, Islamic banks have potentiality of being more attractive and competitive, because they are intrinsically resistible to fluctuations of international financial market. Secondly, Islamic banks attempt to be socialized, uniting themselves to customers with religious and social consciousness. In the article, a way for attaining the second purpose was sketched roughly.

Socialization and dissemination of Islamic banks has been carried out by various parties, such as the government, Bank Indonesia, and OJK, non-governmental organizations, such as MES and PKES, and Islamic social organizations, such as MUI and Muhammadiyah. However, there have been many shortcomings and obstacles in their actions with a result that socialization is still now less optimal, being unintegrated, inefficient, and discontinued.

I designed a plan to be called "the Organized, and Continuous (OC)" socialization program of Islamic banks to be conducted by Socialization Center of Islamic Bank (SCIB), an independent organizing agency for planning, implementing, monitoring, and controlling OC formal and

informal programs, mainly consisting of members of the leading Islamic social organizations, MUI and Muhammadiyah. Through Input-Action-Output process of OC programs, potential customers experience awareness, knowledge, linking, preference, conviction of Islamic banks, until customers decide to use Islamic banks and purchase their products and services. SCIB has a strategic role in implementing OC formal and non-formal programs. MUI and Muhammadiyah exert sufficient power to influence not only the government, Islamic scholars, and Islamic organizations, but also the public in socialization of Islamic banks, with a result that they have advantage in executing their power to both levels, that is, the top authorities and the glass root mass people.

In a formal program is arranged the curriculum of Islamic banks in each level of schools, and in another formal program Ulama are trained Ulama (Islamic scholars) in collaboration with MUI and Muhammadiyah whereby Ulama can acquire ability to guide and lead followers of them in Pengajian to be actual customers of Islamic banks. A non-formal program is Pengajian where Ulama are not trainee, but leaders of audience and followers. Another non-formal program is focus group discussion where SBIC encourages businessmen and investors to place their funds in Islamic banks with consciousness of Islamic ethics.

As far as Islamic banks in Indonesia have willingness not only to be economically competitive, but also to be financial institution based on Sharia rule, it is worthwhile to design socialization programs to be performed not forcibly, but voluntarily in the Indonesia society.

[Notes]

- ¹ With regard to the ethics, Vatican's official newspaper, *Observatory Romano*, stated that the ethical principle on which Islamic banks bases themselves may bring them closer to their clients and to the true spirit which every financial product and service should assume originally as their mission (Totaro, 2009). The article was also delivered by *Temporal* with additional remark that strength of Islamic finance lies in the Sharia-compliant and ethical banking transactions (Temporal, 2011).
- ² According to a research of Elmawazini, et al (2015) about Islamic finance development in GCC Countries, Islamic finance has positive and significant impacts on economic growth in GCC countries. Firstly a main principle of Islamic banking (e.g. zero nominal interest rate) results in efficient allocation of resources. It is in line with Nobel Prize Laureate, Milton Friedman (see Friedman and Bordo, 2005). Secondly, the use of zakat funds and interest-free loans (qard hasan) can reduce the income gap between the poor and the rich and improve socio-economic development in society. Zakat funds are imposed on wealth and income of the rich that exceed their personal spending and normal customs, and they are distributed for private consumption and family use such as "consumer goods" of the poor (Hassan and Khan, 2007). While zakat funds and qard hasan are derived from a kind of charity, they differ from each other in usage: the former are for consumption and the latter for productive activity such as support micro business. At any rate, it is evident that these two points make the possibility of Islamic banks to develop well in the countries.
- ³ Blitz and Long, reviewing historical discourses on the regulation of usury, observe that there have been three kinds of objectives of usury legislation: protecting small borrowers in need of consumption loans; curbing monopoly power of creditors; and regulating allocation of resources (Blitz and Long: 2010). Levy, citing from Smith a statement that "the legal rate, it is to be observed, though it ought to be somewhat above, ought not to be much above, the lowest market rate. If the legal rate of interest in Great Britain, for example, was fixed so high as eight or ten per cent, the greater part of the money which was to be lent, would be lent to prodigals and projectors, who along would be willing to give this high interest", mentions that usury laws, according to Smith, can benefit society by reducing the riskiness of society's investments (Levy, 2010).
- ⁴ RGM (Rapid Growth Market) is a group of 25 selective countries that have a good forecast in market growth with economies and populations over a certain size, and are strategically important for business. Six RGM are Qatar, Indonesia, Saudi Arabia, Malaysia, UAE, and Turkey (QISMUT) where Islamic banks are prospected to grow the fastest in the world.
- ⁵ Beck et al (2010) found that the number of Islamic banks increased during twelve years from 1995 to 2007 by 300 percent. Sole (2007) also points out that the growth of Islamic banking is observed in the world, especially in GCC countries, South East Asia, and in the western countries where conventional banks are still competitive, being confronted with growth of Islamic banks. In accordance with their research and perspective, Srairi and Kouki (2015) found that Islamic banking is viewed as competitive and alternative to the conventional banking in many states of the world, particularly in GCC countries as well as in some Asian countries, which can be proved by a fact that Islamic banking assets have been growing at a faster pace (an average annual growth of 20%) compared with the overall banking assets during the last decade, with the expectation that Islamic banks will play a growing role in the succeeding years.
- ⁶ The data are collected from publicly available data of 70 Islamic banks and 44 conventional banks which participate in the global financial

market in 16 countries (Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates, Turkey, Bahrain, Kuwait, Pakistan, Bangladesh, Egypt, Jordan, South Africa, Sudan, United Kingdom, and Brunei). Figure 3 shows that the best nine of sixteen countries which are prospective countries of Islamic bank in the world. Though not being fully exhaustive, they are estimated to cover approximately 80% of total assets in those countries. The research has some limitation in that it excludes Iran market because of its singular character and that it does not cover all data of Islamic windows in conventional banks and subsidiary operations and offshore business in both Islamic and conventional banks.

⁷ First of all, I must explain regulatory role of Bank Indonesia on Islamic banking. The Banking Act of 1992, the Act No.7 of 1992 stipulated the rules of Islamic finance based on the Shariah principle for the first time. The Act provided the public an opportunity to open a bank which operates on the principle of profit sharing. The dual banking system began to be regulated by the Banking Act of 1998, the Act No. 10 of 1998. The Act substantially made Islamic banks based on the Islamic law with amendment and refinement of PLS principle, allowed commercial banks in Indonesia to operate on Sharia principles, and provided conventional banks an opportunity to open Islamic window: Unit Usaha Syariah (UUS) or Sharia Business Unit (SBU). When doing so, conventional banks must separate money or capital in SBU because money in sharia banking system and conventional banking system cannot be mixed in one place especially in accounting. The 1998 Act is considered as a legal basis for further development of Islamic banks in Indonesia. The Banking Act of 1999, the Act No. 23 of 1999, provided Indonesian Central Bank (Bank Indonesia) with complete authority of regulating Islamic banking operations. In 2006, Bank Indonesia issued "office channeling policy" which allowed conventional banks to open

Shariah banking service without establishing separate office for their Islamic banking unit (Siti Rochmah and Abdulah, 2011). In 2008, a new inclusive act on Islamic banking was passed, the Act No. 21, which contained designation of types of Islamic bank business, provisions for implementing Sharia (Sharia compliance), feasibility and prohibition of Islamic banks, and rules of creating Islamic divisions of conventional banks.

⁸ However, total assets of Islamic banks in Indonesia were Rp.48 trillion in 2009. Besides, while Malaysia has developed a leading Islamic banking sector in ASEAN by now, Indonesia is far from being estimated to have done it.

⁹ The name of event, which meaning is spectacular.

¹⁰ It should be noted here that MUI earnestly supported the establishment of the first Islamic bank in Indonesia (Bank Muamalat of Indonesia) in 1992. Prior to this establishment movement, there was a rise of Islamic economy movement which called for Islamization of economic system in 1980s. One of the main argument of the Islamic economy movement was concerning the issue of interest charge (Al Banna Choiruzzad and Nugroho, 2013). An idea of creating Islamic banks in Indonesia was formed in a workshop on banks and banking interests on 18-20 August in 1990 in Cisarua Bogor, with a sponsorship of MUI, and was forwarded to the National Conference of MUI, on 22-25 August in 1990 in Jaya Jakarta. Then MUI started a working group which made later a blueprint of the first Islamic bank (Antonio, 2001).

¹¹ Since Muhammadiyah has a depth of presence in Indonesian society without rival in other Muslim-majority countries, Indonesian Islam is said to be an associationalised Islam. The single most striking organizational feature of Muslim society in Indonesia is the presence and durability of Muslim social welfare associations such as Muhammadiyah. These associations regard the middle ground of health care, social welfare and schooling as valued ends in themselves. In this manner, associational life in

Indonesia has helped to create a practical religious culture of the Islamic middle way (Hefner, 2013).

- ¹² As a result, as I have discussed in the other article, Islamic banks have shown only slow acceleration for 22 years since the establishment of the first Islamic bank in Indonesia, and market share of assets of Islamic banks is still as small as less than 5 percent. Indonesia is a country which has the largest Muslim population. Halim Alam, Deputy Governor of Bank Indonesia, says that Indonesia could have already been a pioneer and reference for the development of Islamic finance in the world. He stated in February 2012 that the Islamic banking industry has a network of 11 Islamic banks, 24 Islamic business units, and 155 Islamic Rural Banks. 11 Islamic banks are BNI Syariah, Bank Muamalat Indonesia, Bank Syariah Mandiri, and Bank Syariah Mega Indonesia, Bank BCA Syariah, Bank BRI Syariah, Bank Jabar Banten Syariah, Bank Panin Syariah, Bank Syariah Bukopin, Bank Victoria Syariah, and Bank Maybank Syariah Indonesia. Growth rate of Islamic banking in Indonesia now exceeds the whole national banking growth rate (Alamsyah, 2012). However, the amount of the asset is much less than that of the conventional banks.
- ¹³ Hefner observes that Islamic education in Indonesia ranks among the most vital and innovative in the Muslim world. The openness of education has been facilitated by the fact that Indonesia's Islamic educators have embraced the main currents of social reform and curricula innovation promoted by Indonesia's leaders (Hefner, 2013).
- ¹⁴ In socializing Islamic banks in Indonesia, we can consult one successful model of non-bank Islamic micro finance institutions or Baitul Maal Wattamwil (BMT). Activity of BMTs is noticeably different from that of Islamic banks (formal Islamic commercial banks) in that BMT facilitate various types of free charitable services for the poor population which cannot be served by Islamic banks: For example, free

ambulance car service for the people who need to go to hospital for emergency or from hospital to home which can be found in many regions in Indonesia; Job training program where young unemployed people who have high motivation to work or start small business can be supplied with job training gratuitously, for example, for barbers. Those who finished training for barbers can also be lent shops with all barber tools. They can return all facilities shared together with BMTs every day or weekly on the agreement.

There are a lot of ways of increasing the members of BMTs. In fact, Pengajian is one of them, where usually BMTs engage Islamic teachers (Ustad) to teach Islamic thought in villages, paying for them fee of gasoline and motorcycle under qardhul hasan. Qardhul hasan is financing program for help someone or organization and this program is social mission with no profit. Ustad teach the rural population Islamic religion and at the same time introduce Islamic micro finance. The synergy between BMTs and Pengajian has increased the number of membership of BMTs dramatically. Not only the member, but also the asset of BMTs has grown up well. When BMTs were established in 1998, the total capital was Rp. 2.000.000, and after a dozen years, in 2010, it was Rp. 64.000.000 (Rostiyani, 2010). Socialization program of Islamic banks (Islamic formal commercial banks) may consider successful precedence of BMTs and relationships between BMTs and Pengajian, all the more because BMTs are much smaller than Islamic banks in scale and because Ustad are Muslim teachers, in contrast with Ulama, Muslim persons with Islam knowledge in depth, being a respectable role model as Muslim society in daily life. Ulama are Ustad, but Ustad are not always Ulama.

Here I explain types of micro financing institutions in Indonesia. There are many institutions of micro financing in Indonesia which include not only conventional ones but also Islamic ones. One of the largest conventional

micro finance bank are BPRs (Bank Perkreditan Rakyat: people's credit banks), second to the state-owned bank, Bank Rakyat Indonesia (BRI) which has extended the nationwide network of microfinance local units since 1983. BPRs belong to commercial banks and, as well as BRI, have a managerial model that they distribute most of their units into the provinces whose GDPs are relatively low in contrast with other commercial banks whose units are rather concentrated into urban areas. The micro finance institutions provide small-scale loans to poor borrowers (enterprises and individuals) who are required collateral for consumption and investment loans.

There are also some Islamic microfinance institutions in Indonesia, whose representatives are BPRs-Sharia, counterparts of BPRs and BMTs, informal non-banks described in the upper paragraphs. The former are Islamic commercial banks and are to comply with the Sharia principles and supply Islamic microfinance service. The latter are not categorized into the formal banks as they are neither under Bank Indonesia nor banking law of Indonesia. The units of BMTs are located mainly in poor regions like BPRs and BPRs-Sharia. Hamada shows that BMTs had 3,038 units, 157 million Rp. loans, and 209 million Rp. savings in the middle of 2000s, which can be compared with 2,158, 12,150 and 11,160, respectively, in BPRs (Hamada, 2010). Evidently the scale of BMTs is much smaller than that of BPRs.

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